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STATE FOR SCA/INS AND EEB
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DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR MDELANEY/CLILIENFELD/AADLER
TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/FERUS
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SUBJECT: New Delhi Weekly Econ Office Highlights for the Week of
October 2-8, 2009

RE: New Delhi 2037

1. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of October 2-8, 2009, including the
following:

- Reserve Bank of India Warns Banks of Real Estate Risks
- Bombay Stock Exchange Rises on Improved Data, FII Inflows
- 3G Auction Delayed
- Telecom Expert Appointed Prime Minister's Advisor

RBI Warns Banks of Real Estate Risks

2. (U) The Reserve Bank of India (RBI) directed banks to closely
assess the inherent group risk of loans extended to real
estate-related borrowers in a September 24 notification. It also
asked banks to carefully analyze the financial credentials and
viability of borrowers on a consolidated basis when assessing the
loan requirements of large builders/land developers. The RBI's
warning came as real estate companies' lending to their subsidiaries
and other special purpose vehicles jumped to 54 percent of total
loans from 13 percent between FY 2007-08 and FY 2008-09. For
example, DLF, India's largest developer with 308 subsidiaries and 41
companies including partnerships and joint ventures, increased its
loans to these related entities by 14 percent between FY 2007-08 and
FY 2008-09.

3. (U) The rise in lending to real estate industry entities is
attributable to the backlog of demand after the tightening of bank
credit towards the end of 2008, regulations against lending directly
for purchase of land combined with banks' desire for benefits from
increases in land prices, and developers' difficulty in raising
equity for such purchases (note: despite improving market
conditions, many equity investors still perceive real estate
investments as too risky). As a result, developers borrow for
general corporate purposes but transfer the loan proceeds to a
subsidiary, which in turn buys the land. The end result is an
increase in the real estate company's exposure and indirectly the
lenders exposure to the related entities.

BSE Sensex Rises on Improved Data, FII Inflows

14. (U) The Bombay Stock Exchange (BSE) Sensitive Index, the barometer of Indian capital markets jumped over the psychological level of 17,000 on September 30 for the first time in 17 months, a 109 percent increase since April when the global crisis was at its peak. (Note: The BSE slipped to slightly below 17,000 on October 6. End note.) Improved outlook for the financial sector and the global economy, and renewed interest from foreign investors in Indian markets contributed to the rise in the BSE. The Reserve Bank of India (RBI) reported that portfolio investments by foreign institutional investors in the Indian equity markets totalled \$13.6 billion between April-September 2009 compared with outflows of \$5.2 billion in the corresponding period of 2008(reftel).

15. (U) The Indian market has been witnessing abundant liquidity in the last two-three months due to soft monetary policy and the fiscal stimulus packages provided by the government. As a result, Indian companies are rushing to list initial public offerings (IPOs) and Qualified Institutional Placements. Thirty companies filed draft prospectuses with the Securities and Exchange Board of India for IPOs in September alone, compared with six in August and three in July. About \$2.7 billion was raised through IPOs during June-September 2009. Merchant bankers expect another \$10.4 billion to be raised during the second half of the FY 2009-10.

3G Auction Delayed

16. (SBU) The Department of Telecommunications (DoT) failed to release the information memorandum (IM) detailing the modalities of

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the 3G auction by September 29, as originally announced. DoT officials told the press that the delay is due to their inability to map out the availability of 3G airwaves across most circles because the armed forces have refused to adhere to the agreed timelines to vacate the airwaves. Consequently, the GOI has once again indicated that the auction for third-generation mobile services will be concluded by the end of the financial year, making it evident that it will miss the December 7 date for holding the auction. Minister of Information, Communication and Technology A. Raja spoke told reporters during the ITU World Summit in Geneva that various foreign companies have expressed interest in participating in the 3G auction and he expected the auction to generate Rs. 25,000 crore (about \$5 billion) for the Indian government. He also stated that the winners of the 3G auction will be issued a universal access service license (UASL) and will be allocated 2G spectrum when it becomes available. (Comment: DoT will be under intense pressure to meet the March 31 fiscal year deadline, since DoT officials told us earlier that proceeds from the auction have been counted in this year's budget. End comment.)

Telecom Expert Appointed Prime Minister's Advisor

17. (U) Well-known telecom expert Satyanarayan Gangaram Pitroda was appointed Advisor to Prime Minister Singh on October 6. Pitroda who was chairman of the National Knowledge Commission (NKC), will hold the rank of a Cabinet Minister and advise Prime Minister Singh on integrating information and communication technology (ICT) in the areas of infrastructure, health, justice and information. As soon as Pitroda became Advisor, he issued a statement saying that he intends to develop an action plan for the next decade which would bring broadband connectivity to more citizens of India. As head of the NKC, Pitroda spearheaded reforms in higher and elementary education, health, agriculture, traditional medicine and ICT. Based on his recommendations, the government plans to set up an overarching education body incorporating other regulatory institutions, like the University Grants Commission. With his support, the National Knowledge Network has already provided broadband connectivity to about 100 science laboratories and research institutions.

18. (U) Pitroda, an electrical engineer from the University of Chicago, has played a major role in India's communications

revolution. A technocrat with a vision, Pitroda succeeded in introducing telephones to the remotest corners of India. He came to limelight in 1987 when he became late Prime Minister Rajiv Gandhi's advisor in shaping India's foreign and domestic telecom policies. He was awarded the Padma Bhushan, the third highest national award for Indian civilians, this year for his contributions to science and engineering.

19. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>.

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